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SOUTH AMERICA AND INVESTMENTS

BY PERCIVAL FARQUHAR

THE times are fraught with lessons in all fields of national activity; and, for the United States, one of these lessons is that materials taken from abroad for agriculture, industries and general consumption should not be dependent on trade routes and conditions which it may not be in our power to keep open and unfettered by restrictions; for example, in the case of tin from the Straits Settlements, rubber from the Straits Settlements and Ceylon, burlap and manganese from India, and so forth.

To carry out the obligations involved in the Monroe Doctrine, which can now be considered to have taken on new life and development and to be more firmly grounded than ever, we are compelled to keep control of the sea roads to the countries of South America, which means keeping them open for our commerce also. This requires a sufficient fleet, coal-ing stations, forts, etc., along these routes, including the Panama Canal, for which purpose we have the element in our favor, existing nowhere else, of traversing waters of friendly republics equally interested with ourselves.

South America is one of the great natural fields for American investment. The others are Russia and China; but in addition to the question of trade routes, with Russia there are to be considered eventualities of the war, and with China the possibility of Japanese domination.

Does not all this point to the fact that, to suffer the least national derangement in our commercial and industrial life in case of war, we should as far as possible concentrate in South America our foreign investments, obtaining from it the raw material, supplies and articles not produced here or obtained at better advantage from abroad; and, on the other hand, supply South

America with its imports, for which its purchasing power, now large, will grow with the development resulting from this policy on our part?

The notable investments in South America will naturally be in railways; public utilities in cities; hydro-electric developments; properties whose products are consumed in the United States; and Government, state and municipal bonds; representing, according to past experience, approximately the order of safety.

For instance, the bonds of the Costa Rica Railway have for years been quoted at 95 per cent. to par, while the Costa Rica Government bonds were standing at 25 per cent. to 35 per cent., and the railway and Government securities of Guatemala show similar price relations. Even in great countries with stable Governments, like Argentine and Brazil, the national Governments were on a 5 per cent. basis at a considerable margin below par, while the gilt-edged railroads sold their bonds on a 4 per cent. basis at near par.

The individual states and municipalities, being without diplomatic relations, and for other more cogent reasons, have been compelled generally to issue their securities on a lower plane than the Federal Governments. Particularly has this been the case with municipalities, owing to a tendency to extravagance in public improvements and the difficulty usually experienced in the Western hemisphere of properly governing municipalities. This is mitigated in the United States by a limit of indebtedness to a small percentage on the total property values,—a limit difficult of application to South America, where there is no direct taxation on property values. The present long crisis, beginning with the Balkan War, in the autumn of 1912, has brought a salutary change in the scale of expenditure, private and governmental, resulting in balances of trade, increasing in Argentine from \$59,777,000 in 1913 to \$320,000,000 in 1915, and in Brazil from minus \$11,279,000 in 1913 to about plus \$108,000,000 in 1915; while governmental expenditure in Argentine decreased from \$187,000,000 in 1913 to \$165,000,000 in 1915, and in Brazil from \$224,706,000 in 1913 to about \$145,000,000 in 1915.

When the South American Governments shall have balanced their budgets under present conditions, their situation will be unusually sound and healthy, as the countries themselves are being strengthened by their large and increas-

ingly favorable annual balances of trade and their business adjusted to less use of credit, while the outstanding commercial and industrial indebtedness is largely liquidated. State and municipal loans must, however, be scrutinized with especial care and each case judged on its own merits.

Railways in Latin America have the inestimable advantage of concession contracts with the Governments defining the respective rights and obligations. In the United States railways were built under general State laws without contracts, and as a consequence the Government's power of interference in all matters, including rates, is limited only by what the Courts may consider to be a reasonable return on the investment of the most favored railways, condemning those less favored to a lower return or none at all.

In the case of iron ore, Brazil has the largest known deposits in the world—70 per cent. practically free from phosphorus. The State of Minas Geraes alone is estimated to have 1,500,000,000 to 2,000,000,000 tons at about 300 to 400 miles from the sea-coast, and bodies of iron ore exist in other states of Brazil. Our Eastern mills, whose expansion should take on a new phase with our increasing export of steel and steel products, can use this ore to advantage as well as Europe, which needs it for mixture with its low-grade and high phosphorus ores.

Brazil, now the largest producer after India of manganese, sends almost her entire output to the United States, which is planning to increase greatly its consumption in order to replace shipments from India interfered with by the war.

The largest deposits of nitrate of soda in the world are in Chile,—in fact the only known large deposits. The demand of the Allies for ammunition now largely counterbalances in tonnage the loss of the German market, which before the war took 70 per cent. of the output of the Chilean nitrate fields. The United States, to insure its supply of nitrates in case of war, would be compelled to establish great water-power and other electric factories to make artificial nitrates from the air at a larger permanent cost of the product than the Chilean nitrates, were the trade route to Chile (including the Panama Canal) not certain to be kept open for us.

In time of peace as well as in time of war, our country is likely to be one of the world's largest consumers of nitrates. While we had large unoccupied areas of rich land,

there was no necessity to tone up the production of the lands already under cultivation, but now we must turn to them for increase of our production. On the poor soil of the Eastern States, or the partly worn-out soil of the Central States of the United States, the effect of the use of nitrates is magical in the output per acre. It might be that our banking system would find a way to make advances to farmers for nitrate, to be repaid out of the greatly increased season's crop, as has been the custom of the banks in another country.

Our largest supply of tin, that of the Straits Settlements, already severely embarrassed through the present inadequate transportation and high freight rates, and likely to become more so with the closing of the Suez Canal to traffic, is also the object of Government control as a war measure. Is it not clearly to the interest of the United States to turn to Bolivia as the source of its tin, a country containing rich tin ores capable of supplying the world and now producing 18 per cent. of the total output? There are no tin smelters except in Europe, but the first ones in the United States are now being built.

American investment might find it to its advantage to turn to the large tracts of rubber-bearing land along the navigable rivers of the Amazon valley, expanding their output by greater development. At present rubber is gathered only from within two to three miles of the river banks, the hinterland being untouched, so that the production can be increased indefinitely. The Amazon valley can be made a certain source of supply of the best quality of rubber for all our present and future needs, with a short sea trip to the United States.

The cattle-breeding lands of the world, elsewhere than in Latin America, have so narrowed through the encroachments of agriculture that the world's consumption of meat, constantly increasing, has surpassed supplies from those sources. The reserves of wheat production—Canada and Siberia—are too cold for cattle breeding, and the unoccupied ranges of Australia and South Africa receive too little rainfall to make them good cattle ranches, so that they are likely to be called on for further production on a large scale only after South America's well-watered pastures are filled. The immense region of Southern Brazil, Eastern Bolivia, Paraguay and Northern Argentina is now the only large unoccu-

pied territory eminently adapted for cattle breeding; Argentine—excepting the Northern portion—and Uruguay being well occupied with cattle ranches, so the development of cattle breeding and the substitution of ranches taken for agricultural purposes must fall chiefly on the area mentioned.

American cattle breeders who have had to go out of the cattle business through the rise in the price of their land and the encroachments of agriculture, are offered a profitable field for investment and for their activities in South America. Packing-houses have already been established by American interests at Buenos Aires, La Plata, Montevideo, and São Paulo (Brazil), and are in contemplation at other places. The United States has become an increasingly meat-importing nation, and there is no other place in the world beside South America which can give us the largely increased supplies of meat required.

Keeping the trade routes open, under all conditions, on both the East and West coasts of South America, including the Panama Canal, which is a condition *sine qua non* of the maintenance of the Monroe Doctrine, will prevent the shipping lines owned by the American Republics being disturbed in time of war, but it does not supply the present lack of shipping. Besides the handicap of our own Governmental regulations, the insuperable obstacle in the past to the establishment of American shipping lines has been the lack of sufficient tonnage of return cargo to the United States, as we ourselves have been exporters and not importers of wheat, corn, and, until lately, of the meat products, constituting the bulk of South American exports, as cocoa and rubber give a relatively small tonnage.

This situation will be entirely changed by bringing to the United States Brazilian iron ore, manganese, meat products; Argentine meat products, wool, flax, quebracho and extract of quebracho; Chilean nitrates and copper concentrates, and Bolivian tin concentrates for smelting in the United States. These will then furnish such a huge tonnage moving this way as to require not only the expected large increase of our exports of general merchandise to South America, but also a heavy tonnage of American coal to counterbalance it.

It may not be generally understood that it is the heavy tonnage of British coal exported, 97,719,000 tons in 1913,—

about three-fifths of the tonnage of Britain's total exports, carried at times suiting the convenience of her steamship lines and affording them at the same time a sure and cheap supply of their own fuel,—which has been a determining factor in her preponderance in the ocean-carrying trade. The entry of America on a large scale into the coal trade of South America is likewise one of the main factors in the building up of a great American mercantile marine, and, until we have built it up, all calculations regarding raw materials and other supplies from South America as well as exports thereto are subject, as at present, to derangement at any time by happenings over which we have no control.

The mobilization of American securities by the British Government may furnish \$1,250,000,000 to \$1,500,000,000 of exchange, postponing for about nine months the necessity of finding further means of providing exchange to cover the balance of trade for munitions and supplies for herself and for her Allies. As long as the Dardanelles remain closed, Russia will be unable to export to advantage her grain and other products, so that her enormous requirements for munitions imported create a heavy adverse balance of trade which she can only meet through England's financial support. If the war should continue indefinitely, a further solution will be required for the exchange situation next autumn, and this can come about only through the sale of other properties which the only possible purchaser, the United States, might care to buy, pointing naturally to South American securities, of which England alone is estimated to own upwards of \$3,000,000,000. In helping Europe to meet her needs in this way, we shall at the same time give to ourselves the most favourable form of investment to be made in South America in taking proven properties without the risk and delay usually attendant upon investments in new fields. Europe must realize that it is for her advantage that we consider this situation now; as otherwise, should a crisis arise requiring immediate action, our bankers and public might not be prepared with the necessary information on which to act.

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